



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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## ***Budget Update: Amended Budget Resolution Means Deeper Cuts In Important Services To Fund Tax Cuts***

### **Overview**

Tomorrow, the House is scheduled to consider a plan to amend the budget resolution with spending cuts even deeper than the budget resolution now requires. While the Republican leadership has not announced the final details of the legislation, the central component is likely to be a 44 percent increase in the reconciled cuts to mandatory spending, from \$35 billion to \$50 billion over five years.

It is not certain whether the Republican leadership will be able to generate sufficient votes to bring this badly flawed legislation to the floor. If the legislation does come to the floor – whatever its final details – it is clear that the proposed amendment makes a bad budget even worse, with deeper funding cuts to finance the latest round of Republican tax cuts. The following points should be kept in mind:

- **Any spending cuts will be used to offset tax cuts, not the costs of hurricane response.** Long before the hurricanes, the budget resolution called for \$35 billion in mandatory spending reductions as a partial offset to the \$106 billion in tax cuts included in the budget resolution.
- **Spending cuts threaten vital services, including services for hurricane victims.** A number of the programs that may be cut, like food stamps and Medicaid, benefit victims of Hurricanes Katrina and Rita.
- **The revised budget resolution will still increase the deficit by more than \$150 billion over five years.** By contrast, the House Democratic budget achieved balance in 2012.
- **Republicans' purported interest in offsetting hurricane costs reveals a double standard.** Why should the cost of rebuilding Biloxi be offset but not the cost of rebuilding Baghdad?

### **Major Points**

**Spending Cuts Offset Tax Cuts, Not Hurricane Costs** — Long before the hurricanes, the budget resolution called for \$35 billion in mandatory spending reductions as a partial offset to the \$106 billion in tax cuts included in the budget resolution, \$70 billion of which is facilitated by fast-track reconciliation procedures. Because the amendment to the budget resolution is not expected to revise revenue policy, any spending cuts included in the resolution will continue to offset these tax cuts, not the cost of hurricane relief.

**Republican Claims About Offsetting Hurricane Costs Reveal Double Standard** — The Republican claim about offsetting the cost of hurricane relief is inconsistent with the decision in recent years not to offset tax cuts or supplemental funding for Iraq and other purposes. Why do they insist on offsetting the cost of rebuilding Biloxi but not the cost of rebuilding Baghdad?

**Spending Cuts Threaten Vital Services, Including Services for Hurricane Victims** — Committees are struggling to find the reconciliation spending cuts of \$35 billion. Even some Republicans are expressing concerns about cuts to programs like Medicaid, student loans, and food stamps. A number of the programs that may be cut, like food stamps and Medicaid, benefit people who have been affected by Hurricanes Katrina and Rita. An additional \$15 billion in mandatory spending reductions will mean deeper and more harmful cuts to programs such as these – a level of cuts that even Senate Republicans have shown no interest in pursuing.

**Highlights of Possible Cuts** — Under one possible scenario discussed below, the revised reconciliation instructions could impose larger reductions on programs already slated to be cut, as well as expanding the range of programs that may be cut. For example:

- **Medicaid** — A \$10 billion cut to Medicaid could be increased by \$1 billion, to \$11 billion; or it is even possible that the cut could be as much as the entire spending target assigned to the Energy and Commerce Committee;
- **Student Loans** — The \$8.7 billion in reductions already slated for the student loan programs could be increased by \$5.5 billion, to \$14.2 billion – or even higher, given that the Education and the Workforce Committee does not appear to have identified sufficient spending cuts to meet its original target; and
- **Nutrition and Agriculture** — The Republican budget amendment will reportedly increase the original instruction to the Agriculture Committee by \$1.5 billion, for a total cut of \$4.5 billion. The major mandatory spending programs under the Committee’s jurisdiction are farm subsidies, crop insurance, conservation programs, and food stamps. Food stamps alone account for more than half of all spending under the Committee’s jurisdiction and are therefore at risk of bearing a large share of the total cut.

**Revised Budget Resolution Will Still Increase Deficit** — Republicans passed a budget resolution this spring that over five years was going to make the deficit \$168 billion worse than if they took no budgetary action at all. Now they plan to revise their budget resolution with additional mandatory spending cuts likely to total \$15 billion. Even with these additional cuts – likely to fall on critical services – the Republican budget resolution still worsens the budget’s bottom line by about \$153 billion.

**Democrats Support Fiscal Responsibility** — Democrats have a strong track record on fiscal responsibility. The budget resolution offered by House Democrats this year balanced the budget by 2012, while the Republican budget never reaches balance, even with these proposed changes. Democrats also support reinstatement of the effective pay-as-you-go (PAYGO) rule that helped take the budget from record deficits in the early 1990s to a \$236 billion surplus just five short years ago. If the budget resolution is going to be revised, it should reinstate the PAYGO rule to be sure that new mandatory spending or revenue legislation does not make the deficit worse.

### **Details on Mandatory Spending Cuts**

**Revised Budget Resolution to Increase Mandatory Cuts by 44 Percent** — The original budget resolution instructed eight House authorizing committees to find a total of \$35 billion over five years in spending reductions – a number that the revised budget is expected to increase by \$15 billion (44 percent) for a total of \$50 billion in cuts.

**Cuts May Fall Primarily on Four Committees** — While Republicans have not announced how

they intend to allocate the mandatory cuts, press reports have discussed one possible scenario that would distribute most or all of the additional \$15 billion among four committees: \$1.5 billion to Agriculture; \$5.5 billion to Education and the Workforce; \$1.0 billion to Energy and Commerce; and \$7.0 billion to Ways and Means. This scenario – while speculative – is illustrative of the kind of revision to the reconciliation instructions that could occur. The following table presents the reported scenario.

<b>Potential New Reconciled Spending Cuts in Republican Budget Amendment</b> (billions of dollars)			
<i>House Committee</i>	<i>Original Reconciled Cuts</i>	<i>Reported Possible Additional Cuts**</i>	<i>Total</i>
Agriculture	-3.000	-1.5	-4.5
Education and the Workforce	-12.651	-5.5	-18.2
Energy and Commerce	-14.734	-1.0	-15.7
Financial Services	-0.470	---	-0.5
Judiciary	-0.300	---	-0.3
Resources	-2.400	---	-2.4
Transportation and Infrastructure	-0.103	---	-0.1
Ways and Means	-1.000	-7.0	-8.0
<b>Total, 2006-2010</b>	<b>-\$34.658</b>	<b>-\$15.0*</b>	<b>-\$50.0*</b>

\*Approximate numbers.

\*\*Based on October 19 press report. Actual distribution of revised cuts may well be different.

**Agriculture Committee** — The original budget resolution requires the Agriculture Committee to cut spending by \$3.0 billion. The Republican budget amendment will reportedly increase that amount by \$1.5 billion, for a total cut of \$4.5 billion. The major mandatory spending programs under the Committee’s jurisdiction are farm subsidies, crop insurance, conservation programs, and food stamps. Food stamps alone account for more than half of all spending under the Committee’s jurisdiction and are therefore at risk of bearing a large share of the total cut. However, the food stamp program has steadily improved efficiency and payment accuracy in recent years; there is no significant waste in the program to cut. Consequently, any sizeable cut to the food stamp program would likely mean reducing benefit levels (currently about \$1 per person per meal) or narrowing the eligibility criteria in order to eliminate hundreds of thousands of low-income individuals and families from the program entirely.

**Education and the Workforce Committee** — It has been reported in the press that the budget amendment will increase the Committee’s reconciled cut by \$5.5 billion, to a total of \$18.2 billion over five years. The Committee has approved two bills that saved \$10.6 billion – still \$2.0 billion short of the Committee’s original reconciliation instruction. (H.R. 2830, the Pension Protection Act, cuts direct spending by \$2.0 billion, and H.R. 609, which reauthorizes the Higher Education Act, cuts spending on the student loan programs by \$8.7 billion.) The \$2.0 billion in cuts that the Committee has yet to identify to meet its original instruction, along with the possible \$5.5 billion in additional spending cuts, are likely to fall primarily on student loans. The Committee could make these cuts in some of the following ways:

- ***Eliminate Provisions That Cost Money*** — The Committee could eliminate the two major provisions in H.R. 609 that cost money – raising the amount students may borrow from the federal loan programs and reducing the origination fees they pay on loans – and thus save about \$5 billion.
- ***Substitute the Senate’s Interest Rate and Lender Yield Changes*** — H.R. 609 makes three changes in student loan interest rates that together save \$9.2 billion. The Committee could choose instead to follow the Senate HELP Committee’s proposed changes on lender yields and interest rates, which could save significantly more.
- ***Further Increase Pension Premiums*** — The Committee could adopt the Senate HELP Committee’s proposals that significantly raise the premiums paid to the Pension Benefit Guaranty Corporation by employers with defined benefit plans. The Senate Committee reportedly saves about \$6.7 billion, compared with the \$2.0 billion that the House bill saves by raising premiums.
- ***Make Cuts in Other Programs Not Previously Targeted*** — The Education and the Workforce Committee could cut child nutrition programs (school lunch and breakfast) or vocational rehabilitation state grants, which are under its jurisdiction but have so far not been subject to spending cuts under reconciliation.

**Energy and Commerce Committee** — The original budget resolution instructed the Committee on Energy and Commerce to find spending cuts of \$14.7 billion over five years; reportedly, that target is now expected to increase by \$1 billion, for a total of nearly \$16 billion in spending cuts. At the lower target of \$14.7 billion, reports were that the Committee intended to cut Medicaid by approximately \$10 billion, with an additional \$8 billion to \$9 billion net savings from spectrum receipts. Thus, the Committee appeared to already be exceeding both its old and reported new targets. While it is feasible that the increased target could be met by the policies already under consideration, the Committee may decide to cut Medicaid even deeper in order to find the extra \$1 billion in spending cuts.

**Resources Committee** — While not reportedly slated to get an increase in its reconciled cut, the Resources Committee is nevertheless expected to have the fifth largest reconciliation target. The Resources Committee is likely to assume revenues from opening the Arctic National Wildlife Refuge to oil and gas exploration, a proposal in the President’s 2006 budget. CBO estimates that opening the Arctic to drilling will net \$2.5 billion in revenues to the federal government over the 2006-2010 period, after distribution of the same amount to the State of Alaska. The Senate Budget Committee Chairman has noted that the reconciliation instructions make it possible to use the budget process to open the Arctic Refuge to drilling by protecting this initiative from a Senate filibuster. Today, the Senate Energy and Natural Resources Committee passed its proposal to drill in the Arctic to meet its reconciliation target.

**Ways and Means Committee** — The amount of reconciliation spending cuts assigned to the Ways and Means Committee reportedly will increase by \$7 billion, resulting in a total cut of \$8 billion. The increase in the size of the spending cuts will make it much harder to avoid cuts to key programs that were not previously considered reconciliation targets. For instance, despite recommendations from the Medicare Payment Advisory Commission to remove Medicare overpayments to private plans, the Administration opposes cuts to Medicare in reconciliation, and many Members of the Republican leadership have expressed willingness to abide by those wishes. However, a \$7 billion increase in the reconciliation target for Ways and Means makes Medicare cuts a more realistic possibility. The human resource programs under the committee’s jurisdiction are also likely targets for cuts. These programs include unemployment compensation, Supplemental Security Income for poor elderly and disabled individuals, foster care assistance, the Earned Income Tax Credit for low-wage workers, child care assistance, and Temporary Assistance for Needy Families.